

**REPORT OF THE AUDIT OF THE  
FORMER TODD COUNTY  
SHERIFF'S SETTLEMENT - 2009 TAXES**

**For The Period  
May 1, 2009 Through April 15, 2010**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
FORMER TODD COUNTY  
SHERIFF'S SETTLEMENT - 2009 TAXES**

**For The Period  
May 1, 2009 Through April 15, 2010**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2009 Taxes for the former Todd County Sheriff for the period May 1, 2009 through April 15, 2010. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The former Sheriff collected taxes of \$2,998,153 for the districts for 2009 taxes, retaining commissions of \$108,498 to operate the former Sheriff's office. The former Sheriff distributed taxes of \$2,887,183 to the districts for 2009 taxes. Taxes of \$211 are due to the districts from the former Sheriff and refunds of \$1 are due to the former Sheriff from the taxing districts.

**Report Comment:**

- The Former Sheriff's Office Had A Lack Of Adequate Segregation Of Duties

**Deposits:**

The former Sheriff's deposits as of December 10, 2009 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured    \$14,170

The former Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the former Sheriff's deposits in accordance with the security agreement.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Arthur W. Green, Todd County Judge/Executive

Honorable W.D. Billy Stokes, Former Todd County Sheriff

Members of the Todd County Fiscal Court

Independent Auditor's Report

We have audited the former Todd County Sheriff's Settlement - 2009 Taxes for the period May 1, 2009 through April 15, 2010. This tax settlement is the responsibility of the former Todd County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Todd County Sheriff's taxes charged, credited, and paid for the period May 1, 2009 through April 15, 2010, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 24, 2011 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable Arthur W. Green, Todd County Judge/Executive  
Honorable W.D. Billy Stokes, Former Todd County Sheriff  
Members of the Todd County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Former Sheriff's Office Had A Lack Of Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

January 24, 2011



TODD COUNTY  
W.D. BILLY STOKES, FORMER SHERIFF  
SHERIFF'S SETTLEMENT - 2009 TAXES

For The Period May 1, 2009 Through April 15, 2010

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 366,572	\$ 448,679	\$ 1,347,916	\$ 465,852
Tangible Personal Property	18,022	22,392	54,551	66,219
Fire Protection	1,417			
Increases Through Exonerations	34	41	124	43
Franchise Taxes	46,845	60,332	153,952	
Oil and Gas Property Taxes	274	308	1,007	348
Limestone, Sand and Mineral Reserves	4	5	14	5
Bank Franchises	34,107			
Penalties	2,980	3,720	10,887	3,962
Adjusted to Sheriff's Receipt	(1,015)	(3,391)	(36)	(331)
Gross Chargeable to Sheriff	<u>469,240</u>	<u>532,086</u>	<u>1,568,415</u>	<u>536,098</u>
<u>Credits</u>				
Exonerations	1,007	1,220	3,704	1,280
Discounts	6,388	6,939	20,703	7,790
Delinquents:				
Real Estate	8,202	9,739	30,139	10,416
Tangible Personal Property	13	17	41	88
Total Credits	<u>15,610</u>	<u>17,915</u>	<u>54,587</u>	<u>19,574</u>
Taxes Collected	453,630	514,171	1,513,828	516,524
Less: Commissions *	<u>19,279</u>	<u>21,852</u>	<u>45,415</u>	<u>21,952</u>
Taxes Due	434,351	492,319	1,468,413	494,572
Taxes Paid	434,023	492,071	1,467,318	493,771
Refunds (Current and Prior Year)	<u>281</u>	<u>193</u>	<u>987</u>	<u>801</u>
Due Districts or (Refund Due Sheriff)		**		
as of Completion of Audit	<u>\$ 47</u>	<u>\$ 55</u>	<u>\$ 108</u>	<u>\$ 0</u>

\* And \*\* See Next Page.

The accompanying notes are an integral part of this financial statement.

TODD COUNTY  
W.D. BILLY STOKES, FORMER SHERIFF  
SHERIFF'S SETTLEMENT - 2009 TAXES  
For The Period May 1, 2009 Through April 15, 2010  
(Continued)

\* Commissions:

4.25% on	\$	1,484,325
3% on	\$	1,513,828

\*\* Special Taxing Districts:

Health District	\$	13
Extension District		19
Soil Conservation District		(1)
Library District		24
		<hr/>

Due Districts or  
(Refund Due Sheriff)

\$	<u>55</u>
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TODD COUNTY  
NOTES TO FINANCIAL STATEMENT

April 15, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Todd County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

TODD COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 April 15, 2010  
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of April 15, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 10, 2009, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the former Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$14,170

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2009. Property taxes were billed to finance governmental services for the year ended June 30, 2010. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 13, 2009 through April 15, 2010.

B. Limestone, Sand, and Mineral Reserves and Oil Taxes

The limestone, sand, and mineral reserves and oil tax assessments were levied as of January 1, 2009. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 4, 2009 through April 15, 2010.

Note 4. Interest Income

The former Todd County Sheriff earned \$1,855 as interest income on 2009 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The former Todd County Sheriff collected \$15,591 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The former Sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing account on January 8, 2010. The former Sheriff's escrowed amount is as follows:

2008	\$145
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TODD COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 15, 2010  
(Continued)

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts (Continued)

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Arthur W. Green, Todd County Judge/Executive  
Honorable W.D. Billy Stokes, Former Todd County Sheriff  
Members of the Todd County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Todd County Sheriff's Settlement - 2009 Taxes for the period May 1, 2009 through April 15, 2010, and have issued our report thereon dated January 24, 2011. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Todd County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation to be a material weakness.

- The Former Sheriff's Office Had A Lack Of Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the former Todd County Sheriff's Settlement - 2009 Taxes for the period May 1, 2009 through April 15, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Todd County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen  
Auditor of Public Accounts

January 24, 2011

COMMENT AND RECOMMENDATION



TODD COUNTY  
W.D. BILLY STOKES, FORMER SHERIFF  
COMMENT AND RECOMMENDATION

For The Period May 1, 2009 Through April 15, 2010

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Former Sheriff's Office Had A Lack Of Adequate Segregation Of Duties

During our review of internal controls, we noted the former Sheriff had a lack of segregation of duties. The former Sheriff prepared tax reports, distributed tax payments, signed checks, reconciled checking accounts, collected money, prepared receipts ledgers, prepared disbursements ledgers, prepared deposits, and made deposits. Documented compensating controls were not in place to offset this control deficiency. The Sheriff should have implemented the compensating controls noted below to offset this internal control weakness:

- Bank reconciliations should be checked and approved by someone other than the preparer of the reconciliation. This should be documented on the bank reconciliation.
- Receipts and disbursements ledgers should be reviewed and approved by someone other than the preparer of the ledgers. This should be documented on the ledgers.
- Backs of checks should be provided by the bank and reviewed to ensure checks have proper endorsement.

*Former Sheriff's Response: No Response.*

